

PREPARED STATEMENT OF FRANK SEGRAVE, R.Ph.

Wal-Mart Stores, Inc.

before the

Subcommittee on Oversight and Investigations

of the

Committee on Energy and Commerce

U.S. House of Representatives

"MEDICAID PRESCRIPTION DRUG REIMBURSEMENT:

WHY THE GOVERNMENT PAYS TOO MUCH"

December 7, 2004

Wal-Mart Stores, Inc.

702 SW 8th Street

Bentonville, Arkansas 72716

Introduction

Mr. Chairman and members of the Committee, your efforts to gain more information about pharmaceutical reimbursements under Medicaid are well advised.

I am a registered pharmacist. I joined Wal-Mart Stores, Inc. (Wal-Mart) in 1986, and after various roles in operations and merchandising, became Vice President of Wal-Mart's Pharmacy Division based in Bentonville, Arkansas. Part of my role includes ensuring that "Everyday Low Price" (EDLP) is practiced within the Pharmacy Division. In its purest form EDLP is as it sounds: the same low price every time you visit the store. EDLP begins with "Everyday Low Cost" (EDLC). Purchasing at the best cost along with being a low cost operator and using technology to be efficient allows us to sell at EDLP.

As a Medicaid pharmacy provider in 49 states, our job is to get the right medications to the patients who need them. As a retail pharmacy provider, we must stock and dispense the majority of medications that are commonly prescribed. It is noteworthy that "pharmacies" do not practice pharmacy; it is the face-to-face interaction with the 11,500 Wal-Mart pharmacists that benefit Medicaid recipients.

Our pharmacies operate in large urban locations and small rural towns across America. Of our nearly 3,500 pharmacies, over 1,200 operate in rural areas with a population of less than 50,000. Medicaid patients in both rural and urban areas value their relationship with their Wal-Mart or Sam's Club pharmacist. Wal-Mart's focus is on our retail pharmacy patients and their healthcare outcomes. To this end, our pharmacists are advocates for the Medicaid patients they serve. This advocacy includes: working with prescribers to select less expensive alternative medications; immediate conversion of brand medications to lower cost generics when they become available; and treatment with

less expensive OTC medications. Wal-Mart pharmacists seek to limit “preventable” events by maximizing patient adherence to prescribed treatments. “*Pharmacy is about relationships*” has become the unofficial mantra of the Pharmacy Division’s Associates.

Wal-Mart purchases most drugs centrally through its own pharmacy distribution centers. We are described as a “self-warehousing” chain. Whenever possible, Wal-Mart buyers order directly from manufacturers, who ship products directly to Wal-Mart pharmacy distribution centers.

Wal-Mart’s purchasing decisions for generic products are straightforward. If “AB rated” generic products – which mean products determined by the FDA to be identical to the brand drug -- are available from multiple manufacturers, Wal-Mart will purchase the drug product with the lowest acquisition cost. Product availability is also a factor, because a reliable supply of product is essential to satisfy our patients.

Wal-Mart does not take into account the amount of Medicaid reimbursement, known or anticipated, in determining whether to stock or sell any particular branded or generic drug product. We first and foremost follow our core tenet—“ALWAYS LOW PRICES.” Lower drug product prices to patients are made possible through lower acquisition costs and operational efficiencies.

State Medicaid program beneficiaries represent an important patient population to Wal-Mart. These patients represent 11% of our pharmacy business revenue. Wal-Mart values its role as a Medicaid provider and has never withdrawn from participation in any program, in the Medicaid system, or threatened to do so. Wal-Mart competes for Medicaid patients based on service. While we never provide a blanket waiver of

Medicaid co-payments for our patients, we do not collect the nominal co-payment when a Medicaid patient is unable to pay it.

We do not sponsor a Medicare Discount Card Program, but accept all Medicare-endorsed drug discount cards. Wal-Mart has been aggressive in providing educational literature regarding these discount cards and these approved discount cards have been a success at Wal-Mart. The Pharmacy Division also strongly supports and participates significantly in manufacturer-sponsored patient assistance programs, such as TogetherRx.

My testimony today addresses two issues. First, the importance of ensuring access to Wal-Mart's retail pharmacies by America's most needy, the elderly and the poor. Second, how can Wal-Mart partner with the states to have an effective Medicaid drug program?

The importance of ensuring access to Wal-Mart's retail pharmacies.

On a daily basis, our 11,500 pharmacists take care of patients in the Medicaid program, fill their prescriptions that are subject to complex rules and regulations, and provide the best patient-focused care.

When prescription-only products move to the over-the-counter (OTC) market, their prices drop sharply. Wal-Mart pharmacists routinely consult with patients who have OTC medication questions. This includes options such as our cost-effective private label Equate® brand OTC products, for patients when therapeutically appropriate. Wal-Mart's private label diabetic testing and treatment products sold under the ReliOn® diabetes brand are considered the best value brand in the United States. All state Medicaid programs should include these products on their formularies and provide reimbursement for them. Many states do this today.

Usual and Customary Charges (U&C)

Revenue from Wal-Mart's "cash" pharmacy business for drug products is significantly larger than its revenue from Medicaid. Retail cash price or "U&C" is defined as the usual and customary charge for a drug product offered to cash paying patients. Because this U&C is often lower than the reimbursement formula for Medicaid, this benefits both cash-paying patients and the Medicaid programs. Individual Wal-Mart pharmacies have the ability to lower, but not increase, drug product prices (U&C) within their marketplace as they see fit. Thus, Wal-Mart's U&C (EDLP) is often lower than the formula driven payment set by the state Medicaid programs. Our estimates indicate that many times Medicaid prescriptions were reimbursed at Wal-Mart's lower U&C. The impact of our aggressive lowering of U&C is represented on the attached graphs and Fact Sheet.

Generic Utilization at Wal-Mart

When a generic is available for a prescribed branded product, Wal-Mart pharmacies dispense that generic over 94% of the time. This is true for all payers. Consumers need to know when generic options are available and that they are as safe and effective as brand name drugs, but at a fraction of the cost. Wal-Mart pharmacists play an important role in educating patients about their drug treatment. Our pharmacists help patients understand generic options and whether more affordable generics might be right for them.

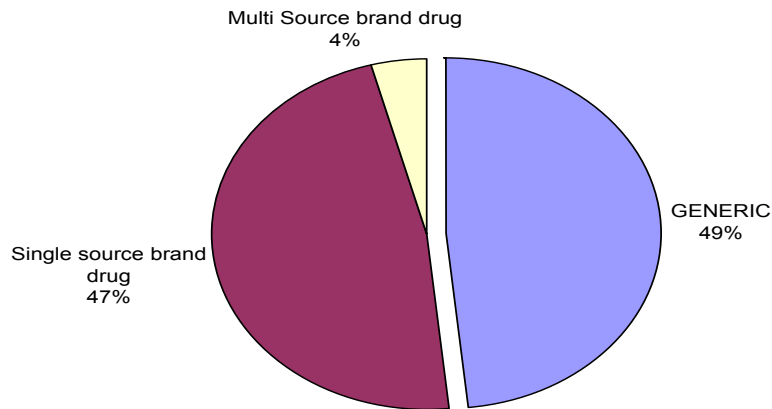
In summary, Wal-Mart has low prescription and OTC drug prices everyday for cash-paying patients and Medicaid benefits directly from this. Our pharmacists also recommend generic drugs and shift patients to more cost-effective drug therapies.

How can the Wal-Mart partner with the states to have an effective Medicaid drug program?

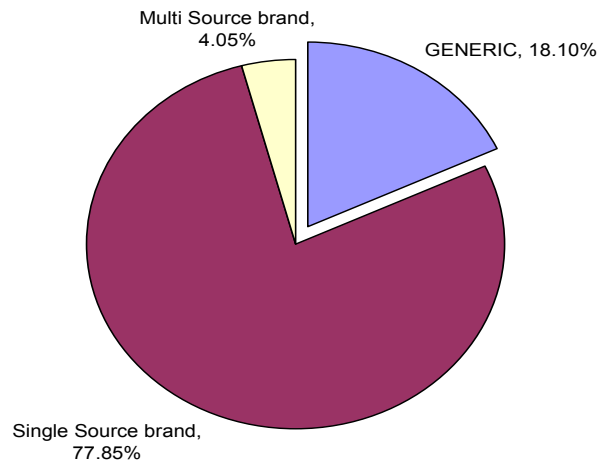
One of the main reasons for the continuing rise in Medicaid drug expenditures and the failure of cost-containment measures, is the introduction of new, more expensive brand name drugs. Drugs within a therapeutic class may be similar, but their prices often vary substantially. Several state Medicaid programs took a major step in passing legislation mandating a permanent commission to research and report on the comparative effectiveness of medications and prices. Wal-Mart encourages other states to implement similar tools.

Reimbursement mechanisms for generics should aim for price competition as the main priority. To Wal-Mart, multi-source generics represent a commodity. Generics save everyone money. The following charts demonstrate Wal-Mart's experience in Medicaid reimbursement for 2002.

% of Medicaid prescriptions by type of drug



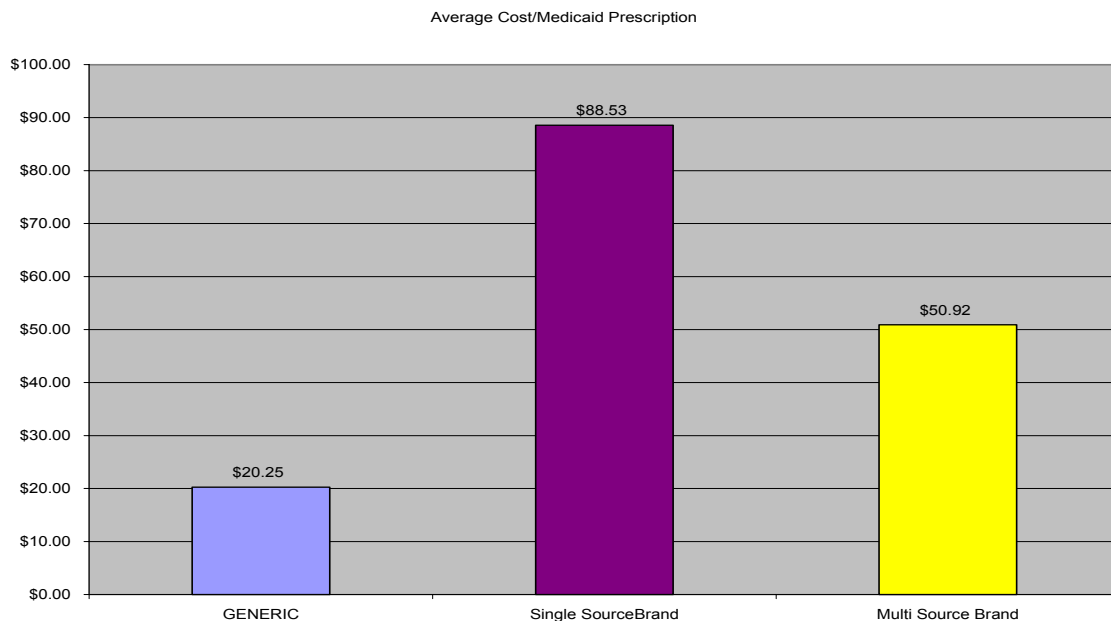
% of Medicaid Revenue by type of drug



Wal-Mart Stores, Inc. data, 2002

While almost half of the prescriptions are written for generic drugs, they account for less than 20% of total Medicaid expenditures. Switching from expensive brand drugs to lower cost generics can help alleviate this problem. Wal-Mart is strongly committed to

encouraging the use of AB rated generics – the exact same drugs at a much lower cost. Generic substitution provides tremendous savings at the same time. Generic drugs mean competition, and competition means lower prices, both to the pharmacy and to the patient. Focusing on generics to reduce Medicaid prescription drug costs is not the answer, because the largest expense lies in the over-utilization and high cost of single source brand drugs. The chart below provides the average total reimbursement received by Wal-Mart from Medicaid programs for each type of drug.



Wal-Mart Stores, Inc., 2002

Wal-Mart endorses the continued adoption maximum allowable cost (MAC), with frequent audits/updates, for multi-source generic drugs under Medicaid.

For branded drug products, Wal-Mart has little or no ability to negotiate discounts below the published wholesale acquisition cost (WAC). Wal-Mart has no greater leverage for branded drug products than any other retail class of trade pharmacy provider. There is a great disparity between what drug manufacturers charge retail pharmacies and

the significantly lower prices they charge other classes of trade such as hospitals, mail order pharmacies, and health maintenance organizations. Thus, an average sales price (ASP, as defined in the Prescription Drug Improvement and Modernization Act (PDIM)) reimbursement model for drugs dispensed to Medicaid beneficiaries would be inequitable for retail pharmacies. ASP is intended to represent volume-weighted, average selling price to all purchasers, excluding certain federal purchasers.

Conclusion

Wal-Mart supports any reimbursement system that provides fair payment for the service and product delivered, protects the patient's safety, and permits the nation's retail pharmacies to fairly participate. Wal-Mart's motto – Always low prices-- is carried out in its pharmacy operations. Actual substantial savings come from market shifts to more cost-effective therapies. Wal-Mart and its pharmacists, as a low cost pharmacy provider, are on the front line to effectuate such shifts.

Thank you for the opportunity to appear today. As always, Wal-Mart is willing to work with state Medicaid programs to be part of the solution.
